Institute and Faculty of Actuaries

Reducing the Money Purchase Annual Allowance

IFoA response to HM Treasury

14 February 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Pension and Savings Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

15 February 2017

Dear Pension and Savings Team

IFoA response to HMT Reducing the money purchase annual allowance consultation

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to HMT's consultation on the money purchase annual allowance (MPAA). Members of the IFoA's Pensions Board have been involved in the drafting of this response.

General comments

2. As the consultation paper states, there are very few individuals paying amounts between the current £10,000 MPAA and the proposed £4,000. We therefore encourage Treasury to conduct further analysis on the potential benefits of this policy, compared to the potential risk of unintended consequences. The tax treatment of retirement benefits has the potential to influence individuals' behaviours both when saving for these benefits and when drawing on them. We support the focus of HMT's 2015 consultation on strengthening the incentive to save and encourage HMT to avoid making changes over the short-term in favour of taking a longer-term approach to pensions policy.

3. Saving for pensions and other retirement benefits is a long-term commitment, but yearly fluctuations in the levels of allowance such as the MPAA or the Annual or Lifetime Allowances can leave savers confused and create mistrust in the pensions system. We suggest that a three-yearly or five-yearly comprehensive review of such allowances might be more appropriate. This would provide more time for changes to bed in and for decisions to be made based on a more robust set of data.

4. Finally, we ask Treasury to consider whether there is any evidence that there is a significant loss due to recycling with the MPAA based on the current £10,000 before proceeding with these changes.

Consultation questions:

Question 1: Do you agree that a £4,000 MPAA would minimise re-cycling pension savings and that, coupled with ongoing monitoring, the new MPAA will allow the continued successful roll-out of automatic enrolment?

5. We do not believe reducing the MPAA will have a materially adverse effect on the roll out of automatic enrolment owing to the low level of minimum contributions. However, there may be

some instances where the auto-enrolment of an individual into a company scheme would inadvertently trigger the allowance. In addition, current saving levels will not be adequate for most individuals, and should the Government seek to increase saving levels once the initial roll out of automatic enrolment is complete, this reduction in the MPAA may become a barrier to increased saving.

6. We agree with the Government that earners aged 55 and over should not be able to take advantage of double pension tax relief. However, we question whether the risk of recycling is high enough to make the proposed action proportionate, particularly in the context of the risk of detriment to certain other groups.

7. In addition, given that so few people are currently paying amounts between £4,000 and £10,000, we do not consider that now is the right time to reduce the MPAA from its current level of £10,000. The justification for lowering the MPAA presented in the consultation is based on a small amount of data about how much existing savers contribute. However, the statistics for current DC savers, and for savers over age 55, are not necessarily representative of future numbers of either.

Question 2: Is there any evidence that setting the MPAA at £4,000 would impact disproportionately on particular groups?

8. We suggest there could be various groups of people that this policy may affect, but who may not be the intended focus of this amendment, for example:
    a. Individuals who get divorced after they have started to take benefits, or who stop work because they are sick or need to care for relatives and need to supplement their income through accessing their pension, may need to return to work at a later date and rebuild their pension pots, usually at an accelerated rate.
    b. Individuals who have a variable employment pattern in their later working life, where in some years they are in employment, but in other years they are not, and so need to draw on their retirement savings to supplement their income.
    c. Individuals who may have taken a small UFPLS in order to give themselves a cushion against a reduction in income from reducing the number of hours they work, but who are still continuing to work and participate in their employer's DC scheme. Someone on a pensionable salary of £27,000 with a 10% employer and 5% employee contribution will exceed the £4,000 per annum allowance.
    d. Individuals who take an UFPLS relating to a very small pension pot, who might not appreciate that it will restrict pension savings in a different scheme. This is an issue already, but would be exacerbated by this change.
    e. Individuals who take a small UFPLS at age 55 and then run out of money, or have increased outgoings, and so return to work.

9. A further criticism of reducing the MPAA is that it is retrospective. There will likely be individuals who made a financial decision to access some benefits flexibly on the basis of being able to contribute a further £10,000 annually and who would have decided not to trigger the MPAA had the figure originally been set at £4,000.

10. Finally, the £4,000 proposed allowance seems both low and arbitrary. We suggest that, rather than focusing on the amount of the MPAA, the Government considers developing an approach that aims to identify the 'recyclers', based on the events that trigger the MPAA, and it is these events which result in changes to the MPAA. For example, this might be the amount taken flexibly, or the time since the individual last accessed their pension savings flexibly. Alternatively, a return to full annual allowance should be permissible under certain conditions.

11. Should you wish to discuss our response please contact Rebecca Deegan, Policy Manager (rebecca.deegan@actuaries.org.uk / 02076322125) in the first instance.

Yours sincerely

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